



2009 Tax Law Changes Provide Saving Opportunities for Nearly Everyone

In 2009, numerous new and expanded deductions and credits came into being for a broad cross-section of taxpayers. The following is a summary of these, and other key changes, that may apply to your 2009 federal income tax return.

American Opportunity Credit Helps Pay for First Four Years of College. More parents and students can use a federal education credit to offset part of the cost of college. This credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers. Here are some of its key features:

- Tuition, related fees and required course materials, such as books, generally qualify.
- The credit is equal to 100 percent of the first \$2,000 spent and 25 percent of the next \$2,000.
- The credit is reduced or eliminated for taxpayers with incomes above certain income levels.
- Forty percent of the credit is refundable.
- Married persons filing separate returns don't qualify.
- The credit is only allowed for the first four tax years of a post-secondary education.

Many Energy Improvements Qualify for Expanded Tax Credits. People who weatherize their homes or purchase alternative energy equipment may qualify for either of two expanded home energy tax credits: the non-business energy property credit and the residential energy efficient property credit.

- *Non-business Energy Property Credit:* This credit equals 30 percent spent on eligible energy-saving improvements, up to a maximum credit of \$1,500 for the combined 2009 and 2010 tax years. The improvements must be made to an existing principal residence – not new construction. The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves qualify,

along with labor costs for installing them. In addition, the cost of energy-efficient windows, skylights and doors, qualifying insulation, and certain roofs qualify, though the cost of installing them do not.

- *Residential Energy Efficient Property Credit:* This credit equals 30 percent spent on qualifying property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property. Qualifying property purchased for new construction or an existing home is eligible. And labor costs are generally included. Also, no cap exists on the amount of credit available except in the case of fuel cell property.

Not all energy-efficient improvements qualify, so check the manufacturer's tax credit certification statement carefully. The statement can usually be found on the manufacturer's Web site or the product packaging. The IRS cautions that the manufacturer's certification is different from the Department of Energy's Energy Star label, and not all Energy Star labeled products qualify for the tax credits.

New Vehicle Purchase Incentive. New car buyers can deduct state or local sales or excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles. The deduction is limited to the tax on up to \$49,500 of the purchase price of each qualifying new vehicle purchased after Feb. 16, 2009, and before Jan. 1, 2010, and is subject to income phaseouts based on filing status. Individuals who itemize and those who take the standard deduction can benefit. In states without a sales tax, other taxes or fees can qualify if they are

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assessed on the purchase of the vehicle and are based on the vehicle's sales price or as a per unit fee.

Tax Credits Increased for Low and Moderate Income Workers. The Earned Income Tax Credit (EITC) is now available for those with three or more qualifying children and married couples. The EITC helps taxpayers whose incomes are below certain income thresholds. The EITC, which, unlike most tax breaks, is refundable, meaning that individuals can get it even if they owe no tax and even if no tax is withheld from their paychecks.

Standard Deduction Increases for Most Taxpayers. Nearly two out of three taxpayers choose to take the standard deduction rather than itemizing deductions such as mortgage interest and charitable contributions. Eligible taxpayers can further increase their standard deduction by state or local real estate taxes paid in 2009, a net disaster loss reported, and state or local sales or excise taxes on the purchase of a qualifying new motor vehicle.

AMT Exemption Increased for One Year. For tax-year 2009, Congress raised the alternative minimum tax exemption.

Making Work Pay Credit. Many taxpayers will qualify for the maximum credit of \$800 for joint return filers (\$400 for others). The credit equals 6.2 percent of earned income up to the maximum amount. For most, the credit is based on the taxable wages reported on Forms W-2. Self-employed individuals figure the credit using net profit or loss. Additional calculations apply to some taxpayers, including those with net business losses or foreign earned income. Not everyone is eligible, such as those whose income is above certain thresholds, those without valid Social Security

numbers, and nonresident aliens. A reduced credit applies to those who received a \$250 economic recovery payment made in 2009, and who claim the government retiree credit.

Although all eligible taxpayers must file Schedule M to claim the credit, most got the benefit of this credit through larger paychecks, reflecting reduced federal income tax withholding during 2009. However, since the adjustments to the withholding tables may have caused millions of taxpayers to be underwithheld, IRS will waive the penalty for an underpayment of personal income tax caused by adjustments made to the income tax withholding tables after enactment of the Making Work Pay Credit.

Government Retiree Credit. This credit is designed to provide a benefit equivalent to the economic recovery payment to those government retirees who did not qualify for these payments. Retired federal, state or local government employees who receive pensions in 2009, based on work not covered by Social Security, are eligible to claim this credit. The credit is \$250. The credit can't be claimed by anyone who received the \$250 economic recovery payment during 2009.

Other Changes

- *Cash for Clunkers* A \$3,500 or \$4,500 voucher or payment made for such a voucher under the CARS "cash for clunkers" program is not taxable to the consumer buying or leasing a new car.
- *Unemployment benefits* up to \$2,400 received in 2009 are tax free for unemployed workers. Every person who receives unemployment benefits can exclude the first \$2,400 of these benefits on their return. Unemployment benefit amounts over \$2,400 are taxed.

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